

# GENERAL ASSEMBLY OF NORTH CAROLINA



## **FISCAL ANALYSIS MEMORANDUM**

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**DATE:** February 1, 2012

**TO:** Revenue Laws Study Committee

**FROM:** Jonathan Tart, Barry Boardman  
Fiscal Research Division

**RE:** Estate Tax Repeal

<b>FISCAL IMPACT</b>					
	<b>Yes (x)</b>	<b>No ( )</b>	<b>No Estimate Available ( )</b>		
	<b><u>FY 2012-13</u></b>	<b><u>FY 2013-14</u></b>	<b><u>FY 2014-15</u></b>	<b><u>FY 2015-16</u></b>	<b><u>FY 2016-17</u></b>
<b>REVENUES:</b>	<b>0</b>	<b>(127.6)</b>	<b>(170.7)</b>	<b>(173.2)</b>	<b>(175.6)</b>
<b>EXPENDITURES:</b>					
<b>POSITIONS (cumulative):</b>					
<b>PRINCIPAL DEPARTMENT(S) &amp; PROGRAM(S) AFFECTED:</b>					
<b>EFFECTIVE DATE:</b>	Decedents dying on or after January 1, 2013				

**BILL SUMMARY:** The proposal would repeal the North Carolina estate tax for decedents dying on or after January 1, 2013. Under current federal law effective for decedents dying on or after January 1, 2013, taxpayers are allowed a credit against federal estate tax liability for state estate

taxes paid. Consequently, the proposal would eliminate both the state estate tax liability and the corresponding credit that could be used to offset federal estate tax liability.

**ASSUMPTIONS AND METHODOLOGY:** The fiscal impact is an estimate of the estate tax foregone as a result of the repeal of the tax. The estimate reflects current state and federal law and does not anticipate any changes to the federal law, which would impact the state's estate tax depending on how the state chooses to conform to any federal changes.

Under current federal law, the estate exemption amount is reduced from \$5 million to \$1 million beginning in 2013. Since North Carolina conforms to the federal exemption amount, the tax is expected to impact more estates in 2013 than it currently impacts. This means the fiscal impact is based on the \$1 million exemption, consistent with current law.

The fiscal estimate is based on tax return data obtained from the Department of Revenue for the 2007, 2008, and 2009 tax years; 15 years of baseline changes to the state estate tax; and various estimates of changes in the federal estate tax by the Joint Committee on Taxation (JCT). Baseline growth averages 1.2% per fiscal year, but is highly volatile from year-to-year.

Estate tax returns are due nine months after the date of death. Since the proposal is effective for decedents dying on or after January 1, 2013, the estimated fiscal impact begins in September of 2013, and therefore, would not impact the 2012-13 fiscal year. Consequently, there is a partial year impact (3/4) recognized for FY 2013-14, and the first full year impact begins with FY 2014-15.

**SOURCES OF DATA:** NC Dept. of Revenue; Fiscal Research; the federal Joint Committee on Taxation

**TECHNICAL CONSIDERATIONS:** None